

# Understanding Your Taxes



★ NEWSLETTER FROM THE CITY OF CAMBRIDGE ★ EXECUTIVE DEPARTMENT ★

## Dear Residents and Taxpayers of Cambridge:

I am writing again to update you about the City's budget, property assessments and tax bills.

In May, the City Council adopted the FY11 Budget of \$459.7 million which: 1) maintains City and school services that citizens have come to expect and provides for a strong capital plan, which provides stability and reinvestment in our community that is important during these difficult times and, given the current economic climate and the fiscal challenges facing many cities and towns in the Commonwealth, is a major achievement; and 2) achieves the above with a moderate increase in the property tax levy in spite of a continued reduction in State Aid, and supports the City Council Goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers." Overall, the FY11 Budget has increased by 3.1%. However, due to a calendar anomaly, \$1.2 million has been added to the budget to cover the cost of a 53rd pay period in FY11 for employees who are paid on Thursdays. Without this addition, the FY11 Budget increase would have been 2.8%.

Approximately 63% of the revenues that fund the City's budget are raised through property taxes. Massachusetts communities are limited in how they can raise revenues, resulting in a greater reliance on the property tax, since it is the largest and most stable revenue. The City of Cambridge has been able to achieve a lower property tax rate and lower residential property tax bill than surrounding communities due to its ability to generate diverse non-property tax revenues, foster new construction, control budget growth and plan prudent use of reserves. These qualities benefited the City during good economic times but, equally as important, they have allowed the City to weather the current economic climate more favorably than other communities.

During the past five fiscal years, we produced budgets resulting in an average property tax levy increase of 3.8%. In FY10, 80.5% of

residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than a \$100) than the previous year. On average, during the last five fiscal years, approximately 80% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than a \$100) than the previous year.

The adopted budget reflects a property tax levy increase of 6.3%, while still maintaining City services and providing for improvements to our infrastructure. The City estimates receiving \$1.1 million less from the State in FY11 than it did in FY10 (budget to budget), for a total of \$26.9 million from the two major local aid categories (Unrestricted General Government Aid (UGGA) and Chapter 70 School Aid). It should be noted that if there was not a reduction in these categories of \$1.1 million, our estimated property tax levy increase would be 5.9% in FY11, or 5.4% if it were not for the additional cost of funding the 53rd pay period in FY11. Overall, since FY09 the City has received reductions of \$9.1 million from these two major local aid categories.

The final FY11 property tax levy will not be known until early October when the City Council votes on the City Manager's FY11 property tax and classification recommendations. In previous years, the City has been able to achieve a lower percentage increase in the property tax levy than originally estimated and we are working hard to do the same this year.

I encourage you to examine this publication, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Very truly yours,

ROBERT W. HEALY, CITY MANAGER

### Cambridge Residential Tax Rate Continues to be the Lowest Among Surrounding Communities and the Lowest of Any City in the Commonwealth!

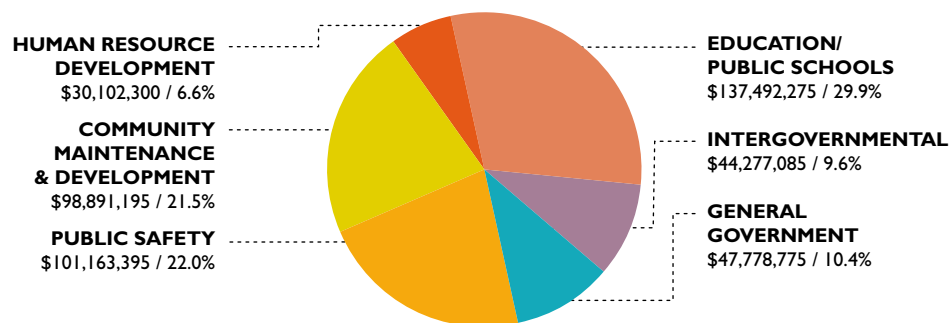
	FY10 TAX RATE (PER \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
<b>CAMBRIDGE*</b>	<b>\$ 7.72</b>	<b>\$ 1,556</b>	<b>\$ 4,644</b>
BROOKLINE*	\$ 10.97	\$ 2,601	\$ 6,989
SOMERVILLE*	\$ 12.30	\$ 3,222	\$ 8,142
BOSTON*	\$ 11.88	\$ 3,266	\$ 8,018
WATERTOWN*	\$ 13.31	\$ 4,213	\$ 9,537
ARLINGTON	\$ 12.11	\$ 4,844	\$ 9,688
BELMONT	\$ 12.16	\$ 4,864	\$ 9,728

\* Includes residential exemption for owner occupied homes. The residential exemption has not been adopted by all communities.

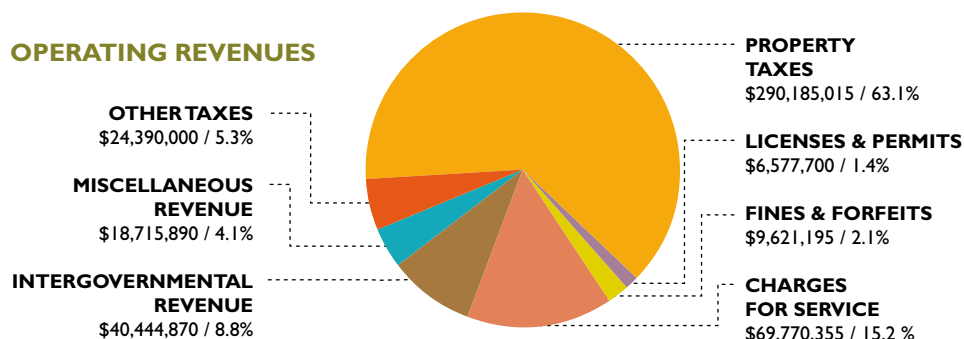
# City of Cambridge FY2011 Budget

**TOTAL OPERATING BUDGET: \$459,705,025**

## OPERATING EXPENDITURES BY FUNCTIONAL GROUP



## OPERATING REVENUES



## DEPARTMENTS BY FUNCTIONAL GROUPS

### General Government (\$47,778,775)

Mayor  
Executive  
City Council  
City Clerk  
Law  
Finance  
Employee Benefits  
General Services  
Election  
Public Celebrations  
Reserve

### Public Safety (\$101,163,395)

Animal Commission  
Fire  
Police  
Traffic, Parking  
& Transportation  
Police Review &  
Advisory Board  
Inspectional Services  
License  
Weights & Measures  
Electrical  
Emergency  
Communications

### Community Maintenance and Development (\$98,891,195)

Public Works  
Water  
Community  
Development  
Historical  
Conservation  
Peace Commission  
Cable T.V.  
Debt Service

### Human Resource Development (\$30,102,300)

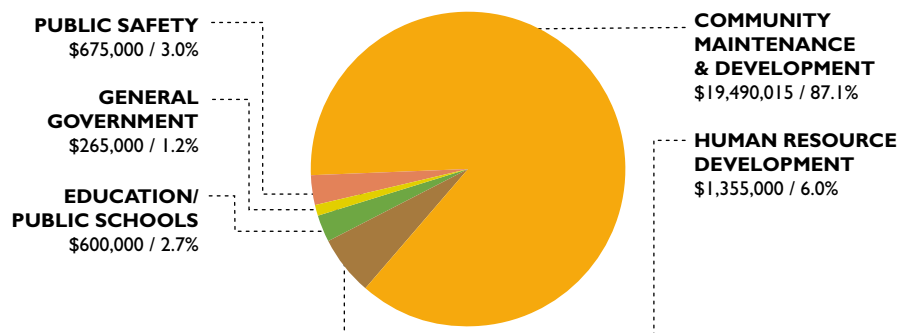
Library  
Women's Commission  
Veterans' Services  
Human Services  
Human Rights Commission

### Intergovernmental (\$44,277,085)

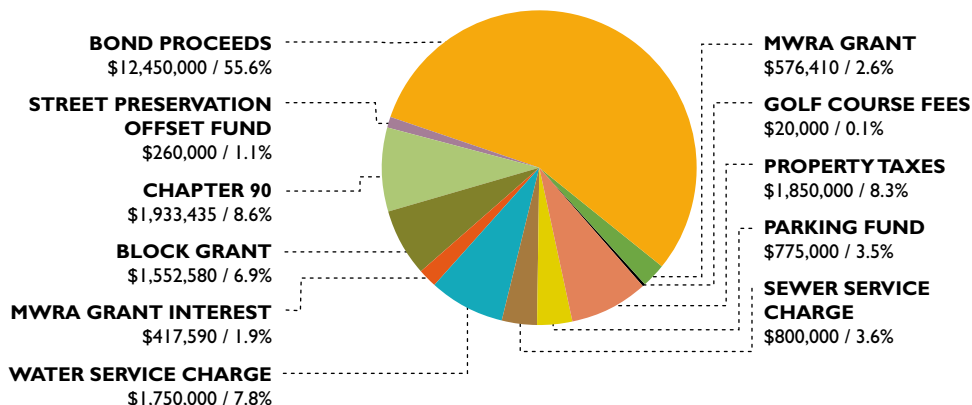
MWRA  
Cambridge Health Alliance  
State Assessments

**TOTAL CAPITAL BUDGET: \$22,385,015**

## CAPITAL EXPENDITURES BY FUNCTIONAL GROUP



## CAPITAL REVENUES



## FY11 CAPITAL PROJECTS LIST

- Sewer Reconstruction
- Street/Sidewalk Reconstruction
- Harvard Square Tunnel/Underpass Improvements
- Water System Improvements
- Housing Rehab & Development
- Parking and Roadway Improvements/Traffic Calming
- Parks and Recreation Facility Improvements
- Recycling Toters
- Fire Vehicles /Equipment/and Fire Station Renovations
- Public Building Improvements
- School Equipment/Building Improvements
- Employment Program Fund
- Acquisition of Personal Computers/ Technology Upgrades
- Neighborhood Business Development/ Façade Improvements
- Accessibility Improvements
- Park and Cemetery Tree Pruning
- Public Art Conservation

# How Your Tax Bill is Determined

## Basic facts about the real estate tax levy

Three major factors are responsible for calculating a tax bill:

- ★ THE CITY BUDGET
- ★ COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION
- ★ PROPERTY VALUES (ASSESSMENT)

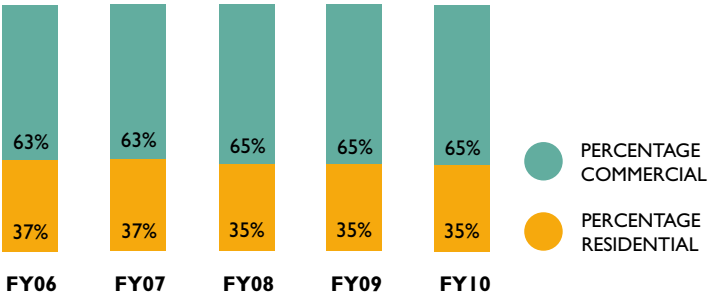
**CITY BUDGET.** The adopted FY11 Budget of \$459.7 million is 3.1% greater than the FY10 adjusted budget. While the City has many sources of revenue, property taxes support about 63% of the operating budget. For FY11, the City projects that it must collect about \$285.6 million in property taxes. This is called the tax levy. Last year, the City Council and City administration produced an FY10 Budget with a 5.38% property tax levy increase. However, this meant that 80.5% of the residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year. The City Council and City administration worked hard during the budget process to produce an FY11 Budget with a modest increase while dealing with continued reductions in State Aid revenue. As a result, the property tax levy is projected to increase no more than 6.3% with the ultimate goal of a smaller increase. The final percentage increase will be determined in early October.

CAMBRIDGE OPERATING BUDGET (in millions)			CAMBRIDGE TAX LEVY (in millions)		
FY 09	FY 10	FY 11	FY 09	FY 10	FY 11
\$434.1M	\$444.2M	\$459.7M	\$254.9M	\$268.7M	\$285.6M (projected)

**COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION.** Municipalities are allowed to tax commercial property (i.e. office, industrial and retail buildings, hotels and personal property) at a higher tax rate than residential property. This process is known as property tax classification. The State property tax classification law is complex, as are the formulas that determine how much the City may collect in property taxes from residential and commercial property owners. The State limits how much higher the commercial tax rate may be set above the residential tax rate. Neither the City Council nor the City administration is allowed to increase the proportion of the tax levy paid by commercial owners versus the proportion paid by residential owners of real estate above the current limit under the permanent law. The property tax classification process has meant that commercial property owners traditionally have paid approximately two-thirds of the total property taxes.

The classification of residential and commercial property as noted is complex and has limits, which impacts the overall percentage of taxes paid by residential and commercial property owners. For example, in FY04, the City of Cambridge reached the maximum shift of the tax levy from residential owners to commercial owners allowed by the State. Escalating residential values, which outpaced commercial property values, were the primary reason that Cambridge reached the permanent, state imposed limit on its ability to shift the tax burden from residential taxpayers to commercial taxpayers. As a result, not as much of the property tax levy was able to be shifted to commercial owners.

PERCENTAGE OF PROPERTY TAX LEVY PAID BY  
RESIDENTIAL & COMMERCIAL PROPERTY OWNERS



In FY05, the trend of slowing values of commercial real estate, coupled with rising values of residences, required Cambridge to further shift the relative burdens of commercial and residential property owners.

This trend was reversed in FY06 when the commercial property owners as a group were required to pay 63.2% of the property tax levy, (up from 61.3% in FY05) with the share paid by residential owners going down from 38.7% to 36.8%.

This trend has continued since FY07 through FY10. Commercial property owners as a group were required to pay 65.4% of the property tax levy in FY10, up from 63.4% in FY07, with the share paid by residential owners going down to 34.6% in FY10, from 36.6% in FY07.

Preliminary projections for FY11 indicate that the portion of the tax levy to be paid by commercial property owners will be similar to recent fiscal years.

The Cambridge residential market has shown a 49% increase in condominium units during the nine year period between FY03 and FY11, from 9,001 units in FY03 to 13,448 units in FY11. The demand for housing units has resulted in commercial property being converted to residential use, which has further eroded the commercial base while increasing the residential base. The national trend of

**City Council Goal: Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers.**

# Motor Vehicle Excise

All Massachusetts residents who own and operate a motor vehicle must pay an annual motor vehicle excise. The excise is levied by the city or town in which the vehicle is principally garaged. Motor vehicle excise bills are created from vehicle registration data collected by the Registry of Motor Vehicles (RMV). The RMV sends billing information to the city or town, which is then responsible for mailing the bills and collecting the tax.

**WHEN ARE MOTOR VEHICLE EXCISE BILLS SENT?** Most people receive their excise bill in February. However, if you buy a car or move into the state during the year, you will receive your first excise tax bill a few months after the car is registered. This bill will be pro-rated for the portion of the year that you own and operate that vehicle in the State of Massachusetts. Thereafter, you will receive your bill in February.

**HOW IS MY EXCISE BILL CALCULATED?** Each motor vehicle is levied a tax at the rate of \$25 per one thousand dollars of valuation. The value of the vehicle is determined by the State using a formula that considers the manufacturer's list price for vehicles in their year of manufacture and the age of the vehicle. The State formula is as follows:

In the year preceding the designated year of manufacture:	50%
In the designated year of manufacture:	90%
In the second year:	60%
In the third year:	40%
In the fourth year:	25%
In the fifth and succeeding years:	10%

**IF I MOVE, WHOM DO I CONTACT TO GIVE CHANGE OF ADDRESS INFORMATION?** You must inform the Registry of Motor Vehicles of any change in address. Prompt notification of address changes will help ensure that you receive your bill. It is important to note that where you live on Jan 1 of each year dictates where the bill will be sent. If you move after that date, you must contact the community in which you resided on Jan. 1 to make sure that you get that year's bill.

**WHOM DO I CONTACT IF I DO NOT RECEIVE A BILL?** Contact the City's Finance Department at 617 349 4220. According to Chapter 60A, Section 2 of Massachusetts General Laws, a person who does not receive a bill is still liable for the excise plus any interest charges and penalties that accrue. Therefore, it is the responsibility of the owner to contact the City in the event that a bill is not received or forwarded from a former address.

**WHAT ARE THE PENALTIES FOR LATE PAYMENT OR FOR NOT PAYING MY EXCISE BILL?** If excise is not paid within 30 days, interest will accrue on the overdue bill at an annual rate of 12% from the day after the due date. Additional fees of up to \$64 may be added to an unpaid excise bill. If the bill is not paid within a year of issue, the City will notify the Registry of Motor Vehicles and the owner will be unable to renew the car's registration and/or renew a driver's license until the bill has been paid.

## DID YOU KNOW?

### FY2010 COMMERCIAL TAX RATES FOR COMMUNITIES WITH SPLIT RATES (DIFFERENT RATE FOR RESIDENTIAL AND COMMERCIAL PROPERTY)

Brookline	\$17.80	Somerville	\$20.44	Watertown	\$24.58	Boston	\$29.38
Cambridge	\$18.75	Needham	\$20.68	Lexington	\$26.21	Burlington	\$29.70
Newton	\$19.93	Medford	\$21.69	Waltham	\$28.67	Framingham	\$33.65

TOP TEN CITY REAL ESTATE TAXPAYERS (FISCAL 2010)	NATURE OF BUSINESS	ASSESSED VALUATION	AMOUNT OF TAXES	% OF TOTAL TAX LEVY
Mass. Institute of Technology	Education	\$1,653,078,400	\$32,394,696	12.06%
BioMed Realty Trust	Commercial	743,567,500	14,263,043	5.31
Boston Properties	Commercial	521,326,800	10,068,124	3.75
Equity Partners	Commercial	286,590,100	5,160,586	1.92
Presidents & Fellows of Harvard College	Education	373,663,300	4,908,853	1.83
New England Development	Commercial	210,140,700	4,058,342	1.51
Novartis Pharmaceuticals	Commercial	206,147,100	3,981,216	1.48
PREEF American Reit II Corp.	Commercial	200,973,900	3,881,308	1.44
RB Kendall Fee LLC	Commercial	191,221,900	3,670,511	1.37
Alexandria Real Estate	Commercial	141,379,800	2,732,913	1.02
		<b>\$4,528,089,500</b>	<b>\$85,119,592</b>	<b>31.69%</b>



## INDEPENDENT ASSESSMENTS OF CAMBRIDGE'S FINANCIAL HEALTH

### What do the Rating Agencies say?

Wall Street's three major rating services, Fitch, Moody's and Standard & Poor's, reaffirmed Cambridge's AAA rating, the highest possible. Cambridge is one of approximately 24 cities in the United States with three AAA ratings. The critical factor examined by rating services is whether a city has a prudent balance between incoming revenues and outgoing expenditures. Many communities pay significantly higher interest rates than Cambridge when borrowing money for capital improvement projects.

*"The assignment of Moody's highest quality long-term rating reflects an exceptionally strong and resilient financial position which positions the city to weather uncertain economic conditions more favorably than most similarly-sized cities. Additional factors supporting the Aaa rating are management's consistently conservative approach to budgeting, a large and diverse tax base with a significant tax-exempt sector and a favorable debt profile supported by healthy enterprise systems and historically strong commonwealth school building aid."*

— Moody's Investors Service, February 2010

*"The rating reflects the City's strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms; Above-average wealth and income factors, including a high market value per capita; Very strong financial position, despite a decline in fiscal 2009, coupled with an experienced management team and strong management policies; and Low debt burden and manageable capital plan."*

— Standard and Poor's, February 2010

*"The rating rationale reflects the city's exceptional financial management which is reflected in consistently strong financial results and reserve levels; The stable presence of higher education, healthcare, biotechnology and life sciences industries underpins a deep, diversified, and wealthy economy; and Debt levels are expected to remain manageable, aided by the city's rapid amortization rate. Key Rating Drivers include: Ongoing sound financial management, which has benefited the city's financial position and continued growth of the city's diverse, strong economy."*

— Fitch Ratings, February 2010

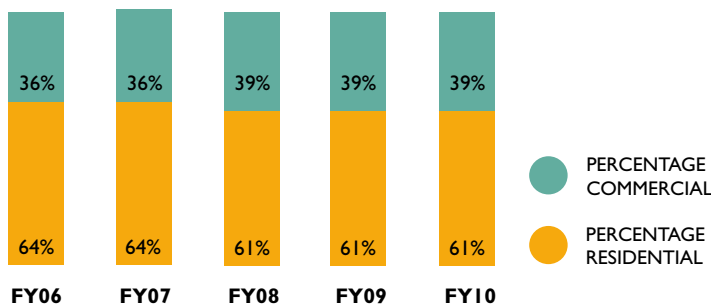
### Other Measures of Success...

- ★ The Main Library was recognized by the Massachusetts Historical Commission and the Cambridge Historical Commission with a 2010 Preservation Award and a certificate of Preservation Merit, respectively. Also, the Harleston Parker Medal Jury of the Boston Society of Architects (BSA) has voted to recommend the Cambridge Public Library for the 2010 Harleston Parker Medal, a recommendation that will be presented to the BSA membership in December for formal endorsement. The Harleston Parker Medal is considered to be the most prestigious architectural award in Massachusetts.
- ★ Cambridge was designated as one of the Commonwealth's first official "Green Communities," which resulted in the City receiving \$283,770 to fund HVAC improvements at the Haggerty School and the Area IV and Frisoli Youth Centers, which will support the implementation of the City's Green Community energy reduction plan.
- ★ Cambridge is one of only four municipalities in Massachusetts awarded the Certificate of Achievement for Excellence in Financial Reporting and Distinguished Budget Presentation by the Government Finance Officers Association.

residential property values growing at a higher rate than commercial values has leveled and now has reversed direction. However, Cambridge remains a highly attractive, desirable place to live, with low crime, a highly educated workforce and desirable cultural and business amenities, which support the property values.

The chart below shows the percent of total value of residential and commercial property. In FY10, residential property comprised 61.4% of total value, but residential owners paid only 34.6% of total taxes.

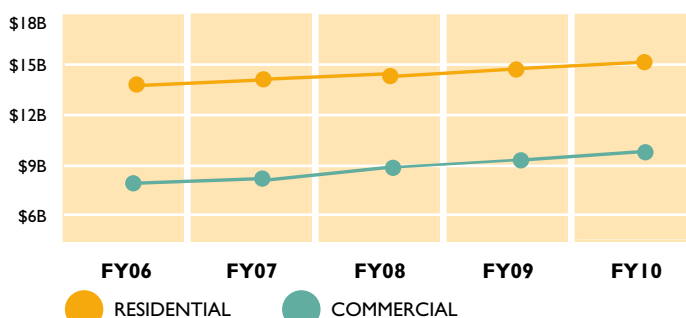
### PERCENTAGE RESIDENTIAL & COMMERCIAL PROPERTY VALUES



**PROPERTY VALUES.** Property values are established independent of the above two factors. The Massachusetts Department of Revenue requires that all property be assessed annually, using approved mass appraisal techniques, at 100% of full and fair cash value. Individual assessments may rise or fall based upon market activities for similar properties and capital improvements. Fiscal year assessments are the property values as of the previous January 1st. The FY11 property tax bills are based on the assessed value as of January 1, 2010, using calendar 2009 market activity. The tax rate is established by dividing the tax levy by total property value. Your property tax bill is calculated by multiplying your property's value by the tax rate.

The chart below illustrates that the commercial base has increased at a faster rate than the residential base. During the past five years, the total residential value has increased by 6.7% as compared to a 18.9% increase for commercial property value.

### FIVE-YEAR COMPARISON OF RESIDENTIAL AND COMMERCIAL TOTAL VALUES



# What If I Have a Tax Related Question or Want More Information?

## Ask The Treasurer

E-MAIL: [treasurer@cambridgema.gov](mailto:treasurer@cambridgema.gov)

## SEND MAIL TO:

The City Treasurer  
Cambridge City Hall  
795 Massachusetts Avenue  
Cambridge, MA 02139

**VISIT THE CITY'S WEBSITE:** [www.cambridgema.gov](http://www.cambridgema.gov)

Sign up for E-Line to receive periodic electronic newsletters, alerts and City publications

## CONTACT A DEPARTMENT:

Assessing Department for Property Value Info. 617 349 4343

Budget Office for Expenditure/Revenue Info. 617 349 4270

Finance Department for Tax Bill Info. 617 349 4220

City Manager's Office for General Info. 617 349 4300

## Important Dates & Publications

### OCTOBER 2010

- City Council votes on residential and commercial tax rates
- FY11 Tax Newsletter Mailed (Including information on Abatements and Exemptions)
- FY11 Tax Bills Mailed

### NOVEMBER 2010

- Community Q&A meetings scheduled at various locations
- Exemptions Newsletter Mailed

[www.cambridgema.gov](http://www.cambridgema.gov)

★ NEWSLETTER #1 ★

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City of Cambridge

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